# Second Quarter 2016 Results

July 27, 2016

# Cautionary Note Regarding Forward-Looking Statements

This presentation contains “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, which are subject to a number of risks and uncertainties. All statements other than statements of historical facts contained in this presentation, including statements in the section “Q316 and FY16 Guidance” and statements regarding our future results of operations and financial position, business strategy, strategic position, plans and objectives of management for future operations and plans for future product development and manufacturing, are forward-looking statements. Without limiting the foregoing, the words “anticipates”, “believes”, “could”, “estimates”, “expects”, “expectations”, “intends”, “may”, “plans”, “seeks”, “projects” and other similar language, whether in the negative or affirmative, are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words.

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to, the timing of customer purchasing decisions and our recognition of revenues; economic conditions; our ability to recruit and retain key personnel; difficulties supporting our strategic focus on channel sales; difficulties retaining and expanding our customer base; difficulties leveraging market opportunities; the impact of restructuring and cost-containment activities; our ability to realize benefits from the Network Equipment Technologies, Inc. (NET) and Performance Technologies, Incorporated (PT) acquisitions and the Treq Labs, Inc. (Treq) asset acquisition; the effects of disruption from the PT and Treq transactions, making it more difficult to maintain relationships with employees, customers, business partners or government entities; the success implementing the integration strategies of NET, PT and Treq assets; litigation; actions taken by significant stockholders; difficulties providing solutions that meet the needs of customers; market acceptance of our products and services; rapid technological and market change; our ability to protect our intellectual property rights; our ability to maintain partner, reseller, distribution and vendor support and supply relationships; higher risks in international operations and markets; the impact of increased competition; currency fluctuations; changes in the market price of our common stock; and/or failure or circumvention of our controls and procedures. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. We therefore caution you against relying on any of these forward-looking statements. Important factors that could cause actual results to differ materially from those in these forward-looking statements are discussed in Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, Part I, Item 3 “Quantitative and Qualitative Disclosures About Market Risk” and Part II, Item 1A “Risk Factors” in the Company’s most recent Quarterly Report on Form 10-Q. Any forward-looking statement made by us in this presentation speaks only as of the date of this presentation. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

# Ray Dolan

## President and Chief Executive Officer

# Q216 Highlights

## Revenue up 11% Year-over-Year

- Total revenue of $60.9M vs. $54.7M last year
- Product revenue of $35.3M vs. $27.0M last year

## Non-GAAP Gross margins[1] improved 330 bps Year-over-Year

- Non-GAAP Gross Margins[1] of 69.2% vs. 65.9% last year
- Non-GAAP Gross Margins[1] Exceeded Guidance[2] by 70 bps

## Non GAAP Earnings (Loss) per Share[1] of $0.08 vs. ($0.10) Q215

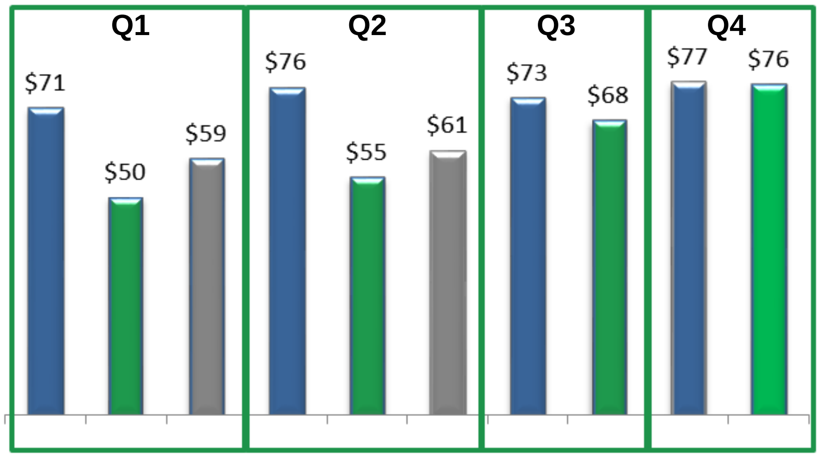
- Q216 non-GAAP EPS[1] guidance[2] was $0.03 to $0.04
- Cash and investments of $142.7M vs. $142.4M Q116

1) Non-GAAP financial measures; please see reconciliation in presentation appendix.
2) Guidance as provided on 04/27/16.

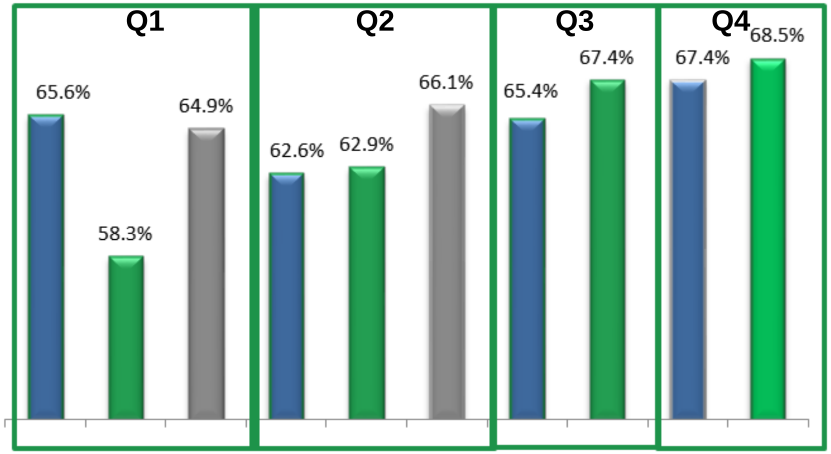
# Quarterly Actuals - GAAP

FY14 FY15 FY16

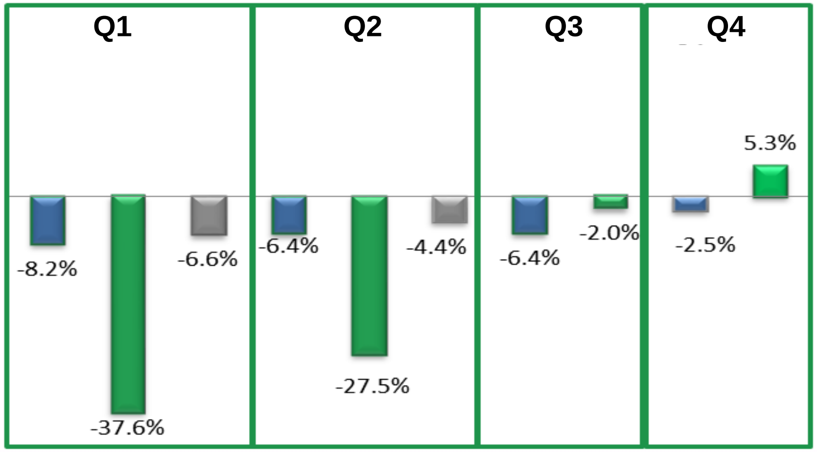
## Revenue ($M)



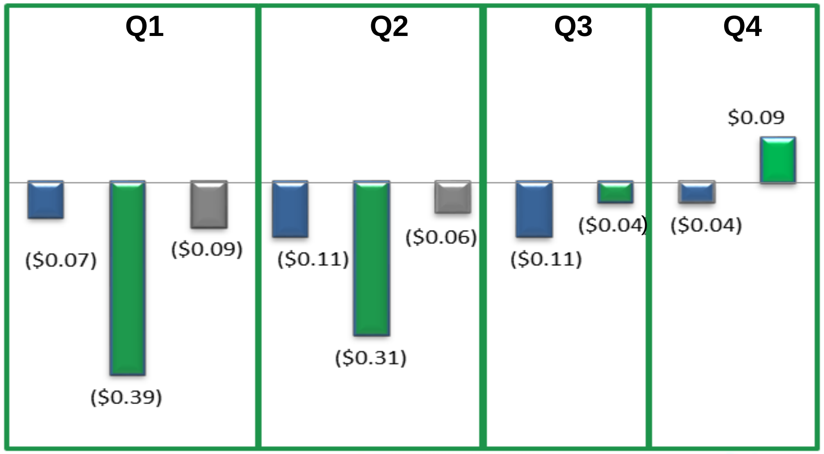

## Gross Margins




## Operating Margins




## Earnings/(Loss) Per Share



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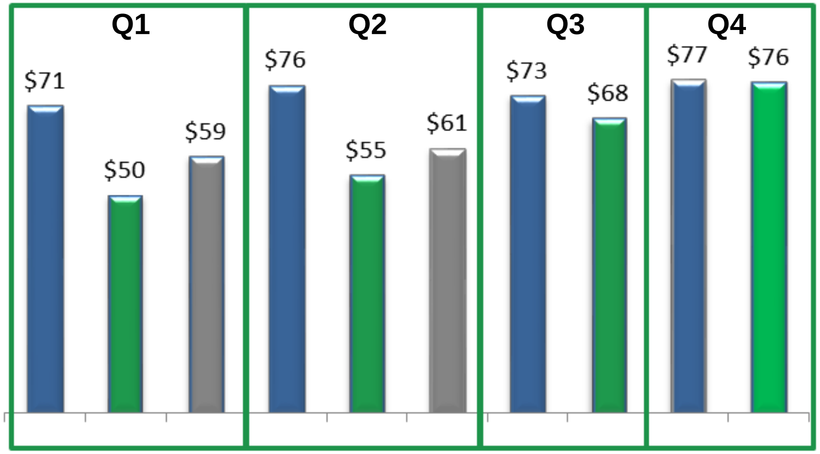
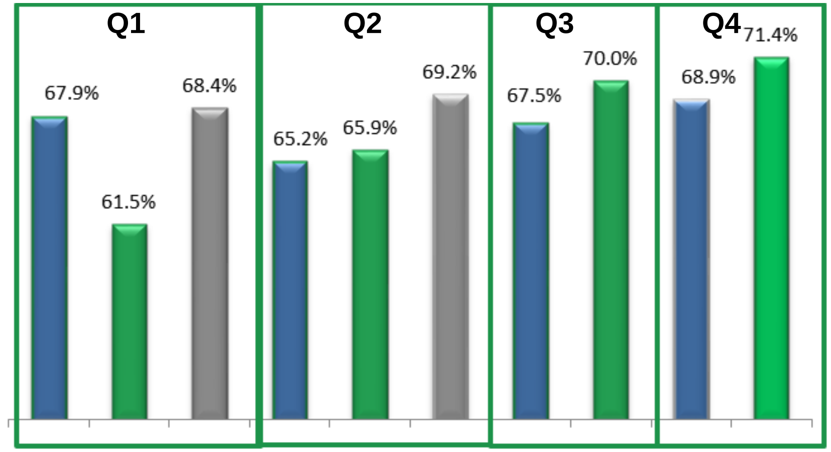
# Quarterly Actuals – Non-GAAP

FY14 FY15 FY16

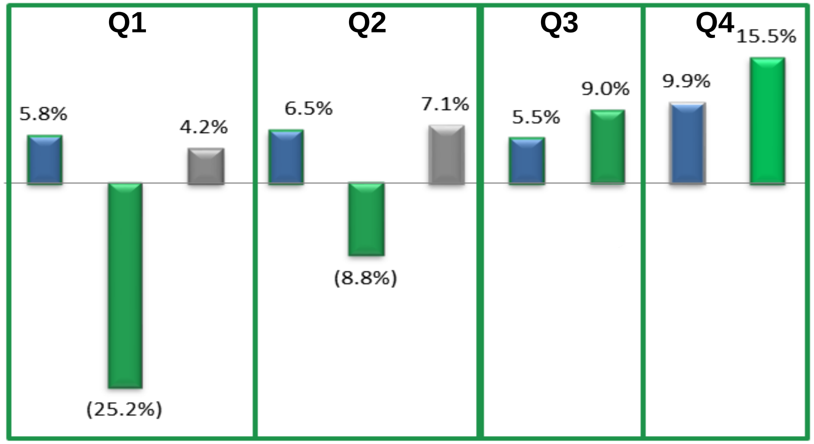
## Revenue ($M)



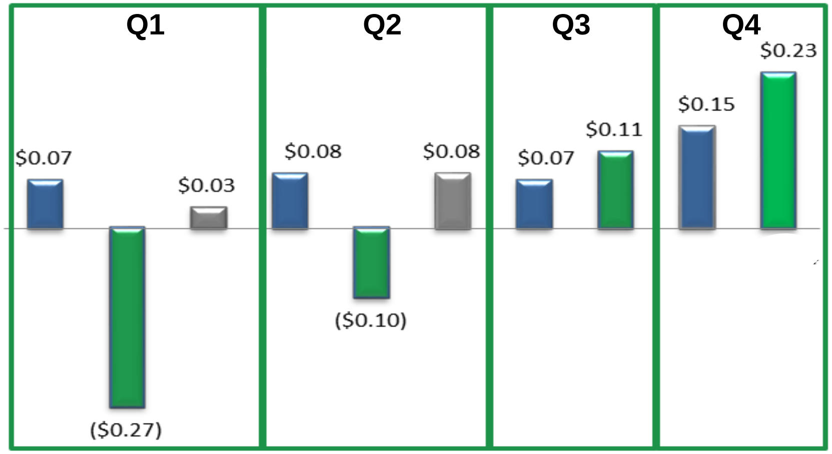

## Gross Margins[1]




## Operating Margins[1]




## Earnings/(Loss) Per Share[1]




1) Non-GAAP financial measures.



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# Susan Villare

## Interim Chief Financial Officer

# Q216 Results

| | Q216 Results | Q216 Guidance[2] |
|---|---|---|
| Total Revenue | $60.9M | $59M to $60M |
| Non-GAAP Gross Margin[1] | 69.2% | 68.5% |
| Non-GAAP Opex[1] | $37.8M | $38M to $39M |
| GAAP loss per share | ($0.06) | ($0.11) to ($0.10) |
| Non-GAAP Diluted earnings per share (loss) per share[1] | $0.08 | $0.03 to $0.04 |
| Diluted Shares | 50M | 50M |
| Cash and Investments | $142.7M | Not provided |

1) Non-GAAP financial measures; please see reconciliation in presentation appendix.
2) Guidance as provided on 04/27/16.

# Q316 and FY16 Guidance

| | Q316 Guidance | FY16 Guidance |
|---|---|---|
| Total Revenue | $63M to $65M | $257M to $263M |
| Non-GAAP Gross Margin[1] | 68% to 68.5% | Not provided |
| Non-GAAP Opex[1] | $38.5 to $39.5M | Not provided |
| GAAP loss per share | ($0.07) to ($0.06) | ($0.22) to ($0.18) |
| Non-GAAP Diluted earnings per share[1] | $0.08 to $0.09 | $0.35 to $0.39 |
| Basic Shares | 49.6M | 49.5M |
| Diluted Shares | 50M | 50M |

1) Non-GAAP financial measures; please see reconciliation in presentation appendix


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# Ray Dolan

## President and Chief Executive Officer

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Has What Matters

Security

Reliability

Scale

in the Cloud

# Q&A

# Discussion of Non-GAAP Financial Measures

Sonus management uses a number of different financial measures, both GAAP and non-GAAP, in analyzing and assessing the overall performance of the business, making operating decisions, planning and forecasting future periods, and determining payments under compensation programs. Our annual financial plan is prepared both on a GAAP and non-GAAP basis, and the non-GAAP annual financial plan is approved by our board of directors. Continuous budgeting and forecasting for revenue and expenses are conducted on a non-GAAP basis (in addition to GAAP) and actual results on a non-GAAP basis are assessed against the annual financial plan. We consider the use of non-GAAP financial measures helpful in assessing the core performance of our continuing operations and liquidity, and when planning and forecasting future periods. By continuing operations, we mean the ongoing results of the business excluding certain expenses and credits, including, but not limited to: incremental cost of goods sold in connection with the fair value write-up of acquired inventory, stock-based compensation, amortization of intangible assets, patent litigation settlement expense, depreciation expense for an abandoned facility, divestiture costs, acquisition-related expense, restructuring and certain gains and losses included in other income (expense). We consider the use of non-GAAP earnings (loss) per share helpful in assessing the performance of the continuing operations of our business. While our management uses non-GAAP financial measures as a tool to enhance their understanding of certain aspects of our financial performance, our management does not consider these measures to be a substitute for, or superior to, GAAP measures. In addition, our presentations of these measures may not be comparable to similarly titled measures used by other companies. These non-GAAP financial measures should not be considered alternatives for, or in isolation from, the financial information prepared and presented in accordance with GAAP.

Investors are cautioned that there are material limitations associated with the use of non-GAAP financial measures as an analytical tool. In particular, many of the adjustments to Sonus' financial measures reflect the exclusion of items that are recurring and will be reflected in our financial results for the foreseeable future.

As part of the assessment of the assets acquired and liabilities assumed in connection with the Performance Technologies, Incorporated (PT) acquisition, we were required to increase the aggregate fair value of acquired inventory by $1.8 million. The acquired inventory was charged to cost of product revenue as it was sold to end customers. We believe that excluding the incremental cost resulting from the write-up of this acquired inventory

# Discussion of Non-GAAP Financial Measures (continued)

As part of the assessment of the PT acquisition, we were required to increase the aggregate fair value of acquired inventory by $1.8 million. The acquired inventory was charged to cost of product revenue as it was sold to end customers. We believe that the incremental cost of product revenue resulting from the fair value write-up of this acquired inventory is in excess of the amount we would have recorded in connection with the related product sales had we purchased the inventory ourselves as opposed to in connection with an acquisition. Accordingly, we believe that excluding this incremental cost of product revenue facilitates the comparison of our financial results to our historical operating results and to other companies in our industry.

Stock-based compensation is different from other forms of compensation, as it is a non-cash expense. For example, a cash salary generally has a fixed and unvarying cash cost. In contrast, the expense associated with an equity-based award is generally unrelated to the amount of cash ultimately received by the employee, and the cost to us is based on a stock-based compensation valuation methodology and underlying assumptions that may vary over time. We believe that excluding non-cash stock-based compensation expense from our operating results facilitates the comparison of our financial statements to compare our financial results to our historical operating results and to other companies in our industry.

We exclude the amortization of acquired intangible assets from non-GAAP expense and income measures. These amortization amounts are inconsistent in frequency and amount and are significantly impacted by the timing and size of acquisitions. Although we exclude amortization of acquired intangible assets from our non-GAAP expenses, we believe that it is important for investors to understand that intangible assets contribute to revenue generation. We believe that excluding the non-cash amortization of intangible assets facilitates the comparison of our financial results to our historical operating results and to other companies in our industry as if the acquired intangible assets had been developed internally rather than acquired.

In June 2016, we recorded $0.6 million of patent litigation settlement costs. This amount is included as a component of General and administrative expense; however, we believe that such patent litigation settlement costs are not part of our core business or ongoing operations. Accordingly, we believe that excluding this patent litigation settlement expense facilitates the comparison of our financial results to our historical operating results and to other companies in our industry.

# Discussion of Non-GAAP Financial Measures (continued)

During the second quarter of 2015, we reached an agreement with the landlord of one of our previously restructured facilities to vacate the facility without penalty or future payments. As a result, we were able to vacate the facility earlier than originally planned. In connection with this settlement, we recorded incremental depreciation expense to account for the change in estimated life of the fixed assets related to this facility. We believe that excluding this incremental depreciation expense facilitates the comparison of our financial results to our historical operating results and to other companies in our industry, as such incremental depreciation expense is not related to our ongoing operations or our core business activities.

On June 20, 2014, we sold the Multi-Protocol Server (MPS) business that we had acquired in connection with the acquisition of PT. We incurred $0.4 million of transaction costs related to this divestiture. We do not consider these divestiture costs to be related to our continuing operations. Accordingly, we believe that excluding these divestiture costs facilitate the comparison of our financial results to our historical operating results and to other companies in our industry.

We consider certain transition, integration and other acquisition-related costs to be unpredictable and dependent on a significant number of factors that may be outside of our control. We do not consider these acquisition-related costs to be related to the continuing operations of the acquired business or the Company. In addition, the size, complexity and/or volume of an acquisition, which often drives the magnitude of acquisition-related costs, may not be indicative of such future costs. We believe that excluding acquisition-related costs facilitates the comparison of our financial results to our historical operating results and to other companies in our industry.

We have recorded restructuring expense to streamline operations and reduce operating costs by closing and consolidating certain facilities and reducing our worldwide workforce. Additionally, as announced above, we expect to record restructuring expense in connection with a new restructuring initiative over the next twelve months. We review our restructuring accruals regularly and record adjustments (both expense and credits) to these estimates as required. We believe that excluding restructuring expense and credits facilitates the comparison of our financial results to our historical operating results and to other companies in our industry, as there are no future revenue streams or other benefits associated with these costs.

# Discussion of Non-GAAP Financial Measures (continued)

In October 2015, we sold the PT domain name to a third party and recognized a gain, net of commission and fees, of $0.9 million. This amount is included as a component of Other income, net. In July 2016, we sold the Network Equipment Technologies, Inc. (NET) domain name to a third party and expect to recognize a gain, net of commission and fees, of $0.8 million, which we will record as a component of Other income, net, in the third quarter of 2016. We believe that such gains are not part of our core business or ongoing operations. Accordingly, we believe that excluding the other income arising from this sale facilitates the comparison of our financial results to our historical results and to other companies in our industry.

In the first quarter of 2014, we received $2.25 million of cash related to the settlement of a litigation matter in which we recovered a portion of our losses related to the impairment of certain prepaid royalties for software licenses which we had written off in 2012. We recorded this gain as a component of Other income, net. We believe that income arising from such litigation settlements is not part of our core business or ongoing operations. Accordingly, we believe that excluding the other income arising from this litigation settlement facilitates the comparison of our financial results to our historical results and to other companies in our industry.

We believe that providing non-GAAP information to investors, in addition to the GAAP presentation, will allow investors to view the financial results in the way management views the operating results. We further believe that providing this information helps investors to better understand our financial performance and evaluate the efficacy of the methodology and information used by our management to evaluate and measure such performance.

# Quarterly GAAP to Non-GAAP Reconciliation

| | Q114 | Q214 | Q314 | Q414 | Q115 | Q215 | Q315 | Q415 | Q116 | Q216 |
|---|---|---|---|---|---|---|---|---|---|---|
| **GAAP total gross margin** | 65.6% | 62.6% | 65.4% | 67.4% | 58.3% | 62.9% | 67.4% | 68.5% | 64.9% | 66.1% |
| Stock-based compensation expense | 0.5% | 0.7% | 0.7% | 0.6% | 0.9% | 0.9% | 0.7% | 0.6% | 0.7% | 0.7% |
| Amortization of intangible assets | 0.9% | 0.9% | 0.9% | 0.9% | 2.3% | 2.1% | 1.9% | 2.3% | 2.8% | 2.4% |
| Fair value write-up of acquired inventory | 0.9% | 1.0% | 0.5% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| **Non-GAAP total gross margin** | 67.9% | 65.2% | 67.5% | 68.9% | 61.5% | 65.9% | 70.0% | 71.4% | 68.4% | 69.2% |
| | | | | | | | | | | |
| **GAAP income (loss) from operations as a percentage of revenue (operating margin)** | -8.2% | -6.4% | -6.4% | -2.5% | -37.6% | -27.5% | -2.0% | 5.3% | -6.6% | -4.4% |
| Fair value write-up of acquired inventory | 0.8% | 1.1% | 0.5% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Stock-based compensation expense | 8.2% | 9.2% | 8.9% | 6.1% | 9.6% | 12.5% | 7.7% | 6.3% | 7.5% | 7.6% |
| Amortization of intangible assets | 1.5% | 1.6% | 1.6% | 1.6% | 3.3% | 2.9% | 2.6% | 2.8% | 3.3% | 2.9% |
| Patent litigation settlement expense | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 1.0% |
| Depreciation expense for abandoned facility | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.6% | 0.5% | 0.0% | 0.0% | 0.0% |
| Divestiture costs | 0.0% | 0.5% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Acquisition-related expense | 1.8% | 0.0% | 0.0% | 0.3% | 0.2% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Restructuring | 1.7% | 0.5% | 0.9% | 4.4% | -0.7% | 2.7% | 0.2% | 1.1% | 0.0% | 0.0% |
| **Non-GAAP income (loss) from operations as a percentage of revenue (operating margin)** | 5.8% | 6.5% | 5.5% | 9.9% | -25.2% | -8.8% | 9.0% | 15.5% | 4.2% | 7.1% |



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# Quarterly GAAP to Non-GAAP Reconciliation

| | Q114 | Q214 | Q314 | Q414 | Q115 | Q215 | Q315 | Q415 | Q116 | Q216 |
|---|---|---|---|---|---|---|---|---|---|---|
| **GAAP diluted earnings (loss) per share** | $ (0.07) | $ (0.11) | $ (0.11) | $ (0.04) | $ (0.39) | $ (0.31) | $ (0.04) | $ 0.09 | $ (0.09) | $ (0.06) |
| Fair value write-up of acquired inventory | 0.01 | 0.02 | 0.01 | - | - | - | - | - | - | - |
| Stock-based compensation expense | 0.11 | 0.13 | 0.14 | 0.09 | 0.10 | 0.14 | 0.11 | 0.10 | 0.08 | 0.09 |
| Amortization of intangible assets | 0.02 | 0.02 | 0.02 | 0.02 | 0.03 | 0.03 | 0.03 | 0.04 | 0.04 | 0.04 |
| Patent litigation settlement expense | - | - | - | - | - | - | - | - | - | 0.01 |
| Depreciation expense for abandoned facility | - | - | - | - | - | 0.01 | 0.01 | - | - | - |
| Divestiture costs | - | 0.01 | - | - | - | - | - | - | - | - |
| Acquisition-related expense | 0.02 | - | - | 0.01 | - | - | - | - | - | - |
| Restructuring | 0.02 | 0.01 | 0.01 | 0.07 | (0.01) | 0.03 | - | 0.02 | - | - |
| Gain on sale of domain name | - | - | - | - | - | - | - | (0.02) | - | - |
| Litigation settlement - prepaid licenses | (0.04) | - | - | - | - | - | - | - | - | - |
| **Non-GAAP diluted earnings (loss) per share** | $ 0.07 | $ 0.08 | $ 0.07 | $ 0.15 | $ (0.27) | $ (0.10) | $ 0.11 | $ 0.23 | $ 0.03 | $ 0.08 |

# Q216 Guidance: GAAP to Non-GAAP Reconciliation

| (in millions, except percentages and per share amounts) | Guidance (A) Three months ending June 30, 2016 Range | | | |
|---|---|---|---|---|
| **Gross margin** | | | | |
| GAAP outlook | | 65.2% | | 65.2% |
| Stock-based compensation expense % of revenue | | 0.8% | | 0.8% |
| Amortization of intangible assets % of revenue | | 2.5% | | 2.5% |
| Non-GAAP guidance | | 68.5% | | 68.5% |
| **Operating expenses** | | | | |
| GAAP outlook | $ | 43.0 | $ | 44.0 |
| Stock-based compensation expense | | (4.7) | | (4.7) |
| Amortization of intangible assets | | (0.3) | | (0.3) |
| Non-GAAP guidance | $ | 38.0 | $ | 39.0 |
| **Income (loss) per share** | | | | |
| GAAP outlook | $ | (0.11) | $ | (0.10) |
| Stock-based compensation expense | | 0.10 | | 0.10 |
| Amortization of intangible assets | | 0.04 | | 0.04 |
| Non-GAAP guidance | $ | 0.03 | $ | 0.04 |

**(A)** As provided by the Company on April 27, 2016.

# Q316 Guidance: GAAP to Non-GAAP Reconciliation

| (in millions, except percentages and per share amounts) | Guidance (A) Three months ending September 30, 2016 Range | |
|---|---|---|
| **Revenue** | $ 63 | $ 65 |
| **Gross margin** | | |
| GAAP outlook | 65.0% | 65.6% |
| Stock-based compensation expense | 0.6% | 0.6% |
| Amortization of intangible assets | 2.4% | 2.3% |
| Non-GAAP guidance | 68.0% | 68.5% |
| **Operating expenses** | | |
| GAAP outlook | $ 44.6 | $ 45.6 |
| Stock-based compensation expense | (4.3) | (4.3) |
| Amortization of intangible assets | (0.3) | (0.3) |
| Restructuring | (1.5) | (1.5) |
| Non-GAAP guidance | $ 38.5 | $ 39.5 |
| **Income (loss) per share** | | |
| GAAP outlook | $ (0.07) | $ (0.06) |
| Stock-based compensation expense | 0.10 | 0.10 |
| Amortization of intangible assets | 0.04 | 0.04 |
| Restructuring | 0.03 | 0.03 |
| Gain on sale of domain name | (0.02) | (0.02) |
| Non-GAAP guidance | $ 0.08 | $ 0.09 |

(A) As provided by the Company on July 27, 2016.



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# FY16 Guidance: GAAP to Non-GAAP Reconciliation

| (in millions, except percentages and per share amounts) | Guidance (A) | | | |
|---|---|---|---|---|
| | Year ending December 31, 2016 | | | |
| | Range | | | |
| **Revenue** | $ | 257 | $ | 263 |
| **Income (loss) per share** | | | | |
| GAAP outlook | $ | (0.22) | $ | (0.18) |
| Stock-based compensation expense | | 0.37 | | 0.37 |
| Amortization of intangible assets | | 0.15 | | 0.15 |
| Patent litigation settlement expense | | 0.01 | | 0.01 |
| Restructuring | | 0.06 | | 0.06 |
| Gain on sale of domain name | | (0.02) | | (0.02) |
| Non-GAAP guidance | $ | 0.35 | $ | 0.39 |

(A) As provided by the Company on July 27, 2016.